

March 30, 1956

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I would like in this -- my last official communication -- to summarize the budgetary problem areas which I anticipate will challenge my successors over the next five years as they follow the course of financial stability you have set for the Republic.

EXPENDITURES

Overall Problem. Perhaps more than any other thing, I am struck by the small number of your team who are actually in a position to appreciate our budgetary problem from an overall point of view. The pressures on us, as you know, seem to be all in one direction.

By the very nature of the individual responsibilities and personal relationships with their own departments, most of the members of the Security Council and the Cabinet are subject to a strong trend eventually to become special pleaders for particular expenditures, regardless of the impact on the budget as a whole. This is a problem which grows progressively more serious with the passage of time as individual department heads are increasingly persuaded by their subordinates and outsiders of the necessity for expanding and augmenting the programs of their agencies. Furthermore, with the political climate we have in Washington, there are formidable pressures to approve programs to keep this or that special group happy or at least from being too strongly antagonized, with the emphasis all on the importance of individual budget items rather than on the status of the budget as a whole. These pressures are brought to bear not only on department heads but on Congressmen, political advisers, and everyone else with whom we work on the Washington scene. It is a part of the Washington atmosphere which seems to become increasingly insidious as we stay in it.

The result has been a loss of enthusiasm regarding the budgetary problem as such. A zest for this crusade is gone and the same individuals who

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in their first year in Washington were able to cut \$10 billion from a budget Mr. Truman sincerely believed could not be cut are now equally sincerely convinced their own budgets cannot be reduced. This poses extraordinarily difficult problems for you, and I do believe it imperative to emphasize the fact that only a thin minority of the administration team may counsel you -- other than in the abstract -- to curb Government expenditures and to hold the budget in balance. Nevertheless, some of us continue to believe that this is no true index of the importance of this problem or of the concern with which our citizens as a whole may view it.

It may well be that the only answer to the problem will be to revise our whole basis of budget preparation. At the present time, we set out by asking department heads what they need. This results in initial estimates compounded of actual needs, hopes, rejected projects from previous years, 10 percent safety factors, all presented in the garb of "minimum requirements." By the time the requests have been shaken down and the final budget presented to the Congress, there has been perhaps more attention focused on the small percentage of items which have been rejected than on the majority which have been approved, a problem made no easier by congressional insistence in appropriation hearings on recording in the record how much the Budget Bureau has cut from each agency's budget. This is now under active exploration, and Mr. Brundage will be reporting to you shortly on it.

Total Expenditures. The record of the past three years has been one of progressively reduced expenditure totals, but it is clear that the majority of the pressures for the future will be in the contrary direction. Next year's approved expenditure total, for example, will be the highest in any peacetime year in American history, and agency projections for succeeding years obviously anticipate further expenditure increases. In part, this arises from the proclivity of agency heads to recommend progressively increased and broadened programs; in even larger measure, however, it will arise from the flowering of programs introduced over the past three years whose full impact is only now beginning to be felt in the budget and which have not been offset in the departments by adequate reductions in old programs. In this connection, you have probably noted that the opposition is endeavoring to make capital from the charge that non-security expenditures in our budgets are outrunning, in total, those of any earlier years in the nation's history, including those of the New and the Fair Deal. This is not quite true at the moment, but let another billion or so be added to our non-security expenditures and we will validate the claim.

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Areas of Difficulty. Keeping the budget in balance is the end result of economies in hundreds of separate programs and not of action in any single major area. The principal area of difficulty for the immediate future, however, remains the Department of Defense, where projections for the next three years anticipate successive expenditure increases on the order of several percent a year. This in substantial measure is related to the position that new programs must be largely additive in nature rather than replacements of other programs of lesser priority. Another type of a difficult area is illustrated by the Veterans Administration, where we will have automatic expenditure increases from year to year on the basis of present legislation and where pressures are continuing to mount for still further liberalization of the present laws.

REVENUES

Although we still hope to hold the budgets for this year and next in balance, a point not generally realized is the totality of revenues required just to achieve such balance. It must be recalled that for three successive years we have requested extension of existing corporate and excise taxes, which has had the net effect of taking off much of the bloom from the incentives and other benefits to our citizens deriving from the 1954 tax reduction program. In consequence, despite our continuing emphasis on the necessity of reducing the tax burden on our people, anticipated tax collections for fiscal 1957 will be the highest in American history -- exceeding those collected in any of the Truman years and 50 percent above actual collections at the height of World War II. Indeed, so far as I can find, our expenditure program requires that we collect more in taxes next year than has ever been collected from any people in any country in all of recorded history.

OTHER

There are four other areas where progress lies in large measure within the province of the Executive and where we are so far faltering. These include (1) reduced numbers of Government personnel; (2) broadened application of the principle of user chargers; (3) reduced Government competition with business; and (4) increased acceptance of the recommendations of the Hoover and Kestnbaum Commissions. We have continued to emphasize these in presentations to the Cabinet, but agency heads have been able to discover a multitude of reasons as to why the time is not yet ripe for

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carrying through in most of these areas. In a good number of cases the reasons appear sound and valid, but there are too many of such cases for real progress to be made. This, of course, is one of the reasons why such agency heads then find it "impossible" to cut back on their existing programs at a time when they are asking for additional money for new programs.

The political complexion of the Congress is related to both this problem and to the broader one of total Government expenditures. The present Democratic Congress has continually resisted our endeavors to make progress in such areas as user charges and reduced Government competition with business. A Republican Congress, by contrast, might well be the means for assisting us to save \$2 or \$3 billion annually.

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